MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2018/2019

DFA5038 – FINANCIAL ACCOUNTING 3
(For Diploma Students Only)

13 OCTOBER 2018
9.00 a.m. to 12.00 p.m.
(3 Hours)

INSTRUCTIONS TO STUDENT

1. This question paper consists of 7 pages with 4 questions.
2. Answer **ALL** questions.
3. Write your answers in the answer booklet provided.

QUESTION 1

Part A

ARB Company reported the following Statement of Comprehensive Income for 2016 and 2017.

ARB Company Statement of Comprehensive Income for the years ended 31 December	2016	2017
Sales revenue	RM425,000	RM532,000
Less: Cost of goods sold		
Beginning inventory	67,700	85,000
Cost of goods purchased	178,500	202,500
Cost of goods available for sale	246,200	287,500
Ending inventory	85,000	94,500
Cost of goods sold	161,200	193,000
Gross profit	263,800	339,000
Less: Expenses		
Operating expenses	65,800	72,000
Administrative expenses	37,000	49,000
Total Expenses	102,800	121,000
Net Income	RM161,000	RM218,000

ARB Company uses a periodic inventory system. Alice, the bookkeeper, made two errors:

(1) 2016 ending inventory was understated by RM9,000.
(2) 2017 ending inventory was overstated by RM13,000.

Instructions

(a) Indicate the amount effect of the errors on the company's **Assets, Equity, Cost of goods sold** and **Net Income** for both years. Also indicate if the amounts are overstated (O) or understated (U). Write your answer in answer booklet provided in table form as below:

	2016		2017	
	Amount (RM)	Overstated/ Understated	Amount (RM)	Overstated/ Understated
Assets				
Equity				
Cost of goods sold				
Net Income				

(4 marks)

(b) Prepare the correct Statement of Comprehensive Income for 2016 and 2017.

(6 marks)

Continued...

Part B

The following information are the inventories data for Keng & Kok Company for the month ended October 31, 2018. The company is using a periodic inventory system.

Date	Description	Quantity	Unit Cost (RM)	Selling price (RM)
Oct 1	Beginning inventory	20	50	
4	Purchase	75	54	
10	Sale	58		80
18	Purchase	35	58	
25	Sale	50		85
28	Purchase	25	62	

Instructions

(a) Calculate the total units and cost of goods available for sale. (1 mark)

(b) Determine the cost of ending inventory and the cost of goods sold at October 31, 2018 using the following cost flow assumptions:

i. FIFO method (3 marks)

ii. LIFO method (3 marks)

iii. Average Cost method (3 marks)

(c) Identify the gross profit that Keng & Kok Company would report under each of the cost flow assumptions. (5 marks)

[TOTAL 25 MARKS]

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QUESTION 2

Part A

Presented below are three independent situations for Abby Cosmetics, Elvin Company and Hanis Corporation for 2017.

1) Abby Cosmetics acquired 10% of the 20,000 shares of common stock of Tiffany Fashion at a total cost of RM14 per share on February 18, 2017. On April 20, Abby Cosmetics sold 300 shares of Tiffany Fashion stock for RM5,250. Abby received a dividend of RM1.50 per share on June 30, 2017.

2) On January 1, Elvin Company purchased a 35% equity in Raziq Corporation for 50,000 outstanding shares of common stock at RM9 per share. On July 1, Raziq Corporation declared and paid a cash dividend of RM40,000. Raziq Corporation reported a net income of RM180,000 for the year.

3) Hanis Corporation acquired 18% of the outstanding common stock of Nelly Corporation on June 1, 2017 by paying RM1,000,000 for 50,000 shares. However, Hanis cannot exercise significant influence over Nelly Corporation. Nelly reported net income of RM600,000 for the year. Nelly declared and paid a RM1.20 per share cash dividend on December 31, 2017. On December 31, 2017 the market price of Nelly's common stock is RM18 per share. Nelly's common stock is classified as trading securities.

Instructions

(a) Prepare all the necessary journal entries for Abby Cosmetics, Elvin Company and Hanis Corporation for 2017.

(15 marks)

(b) Prepare the ledger for stock investment account in Elvin Company to determine the amount to be reported as at December 31, 2017.

(4 marks)

Part B

(a) Corporation purchase investment in debts and stock securities to generate earning from investment income. Identify any **THREE (3)** investment incomes to be reported under "Other Revenues and Gains" on the Statement of Comprehensive Income.

(3 marks)

(b) For purposes of valuation and reporting at a financial statement date, debt and stock investments are classified into three categories. Identify and briefly explain **THREE (3)** categories of securities.

(3 marks)

[TOTAL 25 MARKS]

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QUESTION 3

Part A

Ah Sheng and Jimmy operate separate car wash shops. On January 1, 2018, they decide to combine their sole-proprietorships to form Excel Auto Car Wash, a partnership. Below is selected information from their financial position.

	Ah Sheng Car Wash	Jimmy Auto Car Wash
Cash	RM14,000	RM22,000
Accounts receivable	13,000	8,000
Allowance for doubtful accounts	1,500	500
Accounts payable	5,000	6,000
Notes payable	-	5,000
Salaries payable	2,500	3,000
Equipment	18,000	34,000
Accumulated depreciation- Equipment	2,000	4,000

The fair value of Ah Sheng's equipment is RM15,000 and Jimmy's equipment is RM30,000. It is agreed that the expected value of Ah Sheng's accounts receivable is RM9,000 and Jimmy's receivables is RM6,000. It is agreed that for doubtful accounts should be recognised in the formation of Excel Auto Car Wash.

It is further agreed that the new partnership will assume all liabilities of the proprietorships with the exception of the notes payable on Jimmy's financial position which he will pay himself.

Instructions

(a) List at least **THREE (3)** advantages and disadvantages of partnerships.

(3 marks)

(b) Prepare the journal entries to record each of the partners' investments in formation of the partnership.

(8 marks)

Continued...

Part B

You Ming, Chee Bin, and Su Sian are partners in YCS Associates which is one of the four top audit firms in Malaysia. They offer tax, assurance, and auditing services to their clients. The income sharing ratios are 5:3:2 respectively. On December 31, 2017 the capital balances in YCS Associates are as follows.

Partner	Capital balance
You Ming	RM120,000
Chee Bin	55,000
Su Sian	30,500

On June 30, 2018, Chee Bin decided to withdraw from YCS Associates as he wants to form his own audit firm in Singapore.

Instructions

(a) Journalise the withdrawal of Chee Bin under each of the following independent assumptions.

i. Su Sian agrees to purchase Chee Bin's ownership interest for RM40,000 in cash.

(1 mark)

ii. You Ming and Su Sian agrees to pay RM20,000 in cash from personal funds to purchase Chee Bin's ownership equity. Each of them receives 50% of Chee Bin's equity.

(2 marks)

iii. From YCS Associates' assets, Chee Bin is paid RM60,000 which includes a bonus to a retiring partner.

(2 marks)

iv. Chee Bin is paid RM35,000 from partnership assets. Bonuses to the remaining partners are recognised.

(2 marks)

v. Determine the capital balances of the partners after the withdrawal of Chee Bi under assumption (3) above.

(3 marks)

(b) The liquidation of a partnership terminates the business. Describe the necessary steps on the liquidation of partnerships.

(4 marks)

[TOTAL 25 MARKS]

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QUESTION 4

Part A

On January 1, 2018 the ledger for the liability accounts of York Company shows account payable balance of RM42,300 and unearned service revenue RM10,000. This company selling air conditioner and provide services maintenance to their customers.

The following are selected transactions occurred.

Jan 1	Borrowed RM50,000 in cash from Dubai Bank on a 6 month, 9%, note.
14	Sold new technology 1HP air conditioner for cash totaling RM19,700 which includes 6% sales taxes.
Feb 11	Performed and completed maintenance services for customers who had made advance payments of RM10,000.
15	Sold 16 units of a new 2.5HP Aircond on credit at RM2,100 per unit plus 4% sales tax. This new aircond is subject to a 1 year warranty.
Mar 10	Estimated warranty liability assuming warranty costs are expected to equal 5% of sales of the new 2.5HP Aircond.
31	Accrued interest for 3 months on Dubai note.
May 1	Actual warranty costs incurred during the year were RM450.
23	Remit 80% of the total sales taxes collected to tax authorities.
June 30	Made full payment of Dubai notes.

Instruction

Prepare journal entries to record the above transactions. Show all your workings.

(11 marks)

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Part B

Presented below are the comparative lists of accounts in the Statement of Comprehensive Income for Shoppie Company for the year ended 2017 and 2016.

	2017 (RM)	2016 (RM)
Sales	507,500	627,500
Cost of goods sold	218,750	308,600
Advertising expense	45,000	32,500
Depreciation expense	40,000	32,800
Rental expenses	36,250	25,500
Salaries and wages expense	71,250	52,000
Travelling expense	12,500	38,500
Utilities expense	8,750	6,500

Additional information for Shoppie Company is as below:

1) Shoppie Company's sales consist of 70% credit sales and 30% is cash sales.
2) The assets and liabilities for Shoppie Company as follow: -

	2017 (RM)	2016 (RM)
Cash	222,000	259,000
Receivables	85,000	67,000
Inventories	90,000	65,000
Plant assets	250,000	200,000
Account payable	105,000	82,000
Notes payable (due in year 2020)	250,000	250,000

Instructions

(a) Prepare the Statement of Comprehensive Income for Shoppie Company and prepare a vertical analysis in columnar form for both years.

(6.5 marks)

(b) Compute the following ratios for 2017.

i) Profit margin
ii) Current ratio
iii) Account receivable turnover
iv) Inventories turnover
v) Return on assets

(7.5 marks)

[TOTAL 25 MARKS]

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